

Engineering Accounting

An Overview
Richard S. Barr



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Why Study Accounting?

- Accounting is pervasive
- Used in all types of organizations
 - For-profit companies
 - Not-for-profit companies
 - Governmental organizations

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Organizations

Common characteristics:

- An objective or group of objectives
- A set of strategies to achieve its objectives
- Managers
 -
- An organizational structure
 -
- A need for information

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Accounting

- A key element of management
- You must understand what is being reported
 -
- Managers' performance is often measured by accounting data
- This data is used for decision making

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Accounting Systems

- Are the primary quantitative information system in most organizations
 - Types of information
 - Purposes of accounting systems

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Types of Information

In accounting systems:

- Attention-directing
 -
- Problem-solving
 -
- Scorekeeping
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Purposes of Acctg Systems

- Internal reporting to managers for planning and control
- Internal reporting for special decisions, policies, and long-range plans
- External reporting

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Accounting Systems

Four Standard Types



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Types of Accounting Systems

1. Financial
2. Tax
3. Management
4. Cost

Different views for different audiences

Our focus: financial and managerial

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Financial Accounting

- Primarily for the external decision maker
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 -
 -
- External reporting follows legal and GAAP requirements
- Objective: provide standard view of organization's past performance

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Tax Accounting

- Based on IRS regulations
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- Some accounting rules differ from financial
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- Objective:
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Management Accounting

- Designed primarily for the internal decision maker
- Reporting is designed to assist management in
 - Decision making
 - Planning
 - Control

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Cost Accounting

- Concerned with the costs of business activities
 - Products, services, departments, resources
 -
- Supports decision-making
- Part of managerial accounting

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Financial vs. Managerial

- Managerial accounting:
 - Focuses on internal uses by management
 - Emphasizes the future
 - Is not governed by generally accepted accounting principles
 - Relevance and flexibility of data
 - Less emphasis on precision
 - Draws from other disciplines
 - Is not mandatory

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Financial vs. Managerial

Similarities

- Use the same accounting data
- Rely on concept of responsibility:
 - Assigning responsibility to individuals

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THE WORK OF MANAGEMENT



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The Work of Management

- Planning
- Organizing and directing
- Controlling
- Decision-making

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Planning

- Deciding on objectives and how to attain them
- In accounting:
 - Constructing budgets

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Organizing and Directing

- Organizing: deciding how best to carry out established plans and objectives
- Directing: overseeing daily activities and keeping organization running smoothly

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Controlling

- Implementing plans and using feedback to obtain objectives
- In accounting:
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 -
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Decision Making

- Choosing between alternatives
- Example internal decision makers:
 - Division Manager
 - Plant Manager
 - Foreman
 - Marketing Manager
 - Regional and District Sales Manager
 - Manager of Research and Development
 - Manager of Physical Distribution

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Types of Decisions

- Make or buy a product
- Choose raw material to use
- Select process to use
- Acquire or discard machinery or equipment
- Add or delete a product or product line
- Select products for additional promotion
- Choice of distribution channels
- Lease or purchase

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Performance Evaluation

- Financial accounting approach:
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- Managerial accounting approach
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Management by Exception

- Focus on
 - Accounting system should highlight
 - Used as feedback for controlling
 - Performance Reports show:
Budgeted - Actual = Variance

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ORGANIZATIONAL STRUCTURE



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Organizational Structure

- How are organizations structured?
- Three key concepts:
 - Decentralization
 - Responsibility accounting
 - Line and staff relationships

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Decentralization

- Delegation of decision-making authority throughout an organization
- Managers are given areas of responsibility

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Responsibility Accounting

- Associating revenues, costs, and expenses with individuals

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Line and Staff Relationships

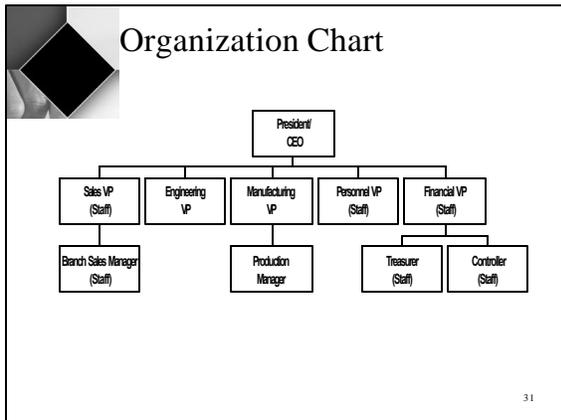
- Line positions
 - Directly related to the organization's basic objectives
- Staff positions
 - Indirectly related
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Accounting Is Staff

- The Controller
 - Chief management accounting executive
 - In charge of supplying information and advice to line positions

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- ## Key Points
- Three types of accounting information
 - Financial versus managerial accounting
 - Four functions of management
 - Performance evaluation
 - Organizational structure
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- ## Big 8 Reasons for Studying Accounting
- 1.
 - 2.
 - 3.
 - 4.
 - 5.
 - 6.
 - 7.
 - 8.
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